

Message Text

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ACTION XMB-07

INFO OCT-01 AF-10 ISO-00 AID-20 CIAE-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 OPIC-12 SP-03 CIEP-03

OMB-01 DRC-01 /084 W

----- 124129

R 240730Z SEP 74

FM AMEMBASSY DAR ES SALAAM

TO SECSTATE WASHDC 6492

USDOC WASHDC

INFO AMEMBASSY NAIROBI

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PASS COPIES: EXIM; AF/E; AF/EPS; EB/CBA

E.O.11652: N/A

TAGS: BEXP, BTIO, EFIN, TZ

SUBJ: EXIM LOAN TO TANZANIAN TEXTILE INDUSTRY

REF: (A) STATE 206610

(B) DAR ES SALAAM 3866

(C) DAR ES SALAAM 2124

(D) DAR ES SALAAM 4103

(E) DAR ES SALAAM 1599

(F) DAR ES SALAAM 1651

(G) DAR ES SALAAM 1878

(H) DAR ES SALAAM 1956

(I) DAR ES SALAAM 2565

(J) DAR ES SALAAM 2755

1. FOLLOWING CODED TO ANSWER QUESTIONS IN REF (A):

(A) CONVERSATIONS WITH NATIONAL TEXTILE (TEXCO) MANAGEMENT AND ITS CONSULTANT (SEE PESTONIJI/LUCIUS MEMCON WHICH WAS POUCHED TO EXIM LOAN OFFICER AULD BEFORE RECEIPT OF REF (A) DISCLOSED THAT TEXCO IS INDEED IN FINAL STAGE OF DISCUSSIONS WITH IBRD TO FINANCE MWANZA RPT MWANZA TEXTILE MILL EXPANSION. THUS FAR TEXCO

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OR OTHERS IN TANGOV HAVE NOT PROPOSED IBRD FINANCING OF MUSOMA

RPT MUSOMA MILL. HOWEVER, MANAGEMENT CONSULTANT (PESTONIJI) NOTES THAT THERE IS DEEP REGRET IN TEXCO THAT THEY DID NOT SEEK IBRD FINANCING FOR MUSOMA MILL AS WELL IN VIEW OF DELAY AFTER DELAY IN GETTING EXIM TO CONSIDER ITS PRELIMINARY COMMITMENT (PC) APPLICATION. IN ADDITION, ACCORDING TEXCO FINANCIAL MANAGER (DUPENS), VISITING IBRD TEAM LAST MAY SUGGESTED NEGOTIATIONS COVER MUSOMA MILL. TANGOV WAS APPARENTLY NONCOMMITTAL AT TIME SO AS NOT TO CUT ITS OPTIONS. EMBOFF RECALLS ABOUT THAT TIME TEXCO OFFICER TOLD HIM THAT COMPANY WAS NOT TOO INTERESTED IN IBRD FINANCING (DESPITE ITS ATTRACTIVE INTEREST RATES) BECAUSE (SO THEY THOUGHT AT TIME) IT WOULD TAKE SO LONG TO NEGOTIATE IBRD LOAN THAT ANY GAINS ON LOWER IBRD INTEREST RATE WOULD BE MORE THAN WIPE AWAY BY RISING MACHINERY PRICES. EXIM, SO THEY REASONED, OFFERED OPPORTUNITY TO GET PROJECTS MOVING MUCH MORE QUICKLY. (B) PRESENT TEXCO ESTIMATES OF MWANZA EXPANSION REMAIN AS QUOTED IN JUNE MEETING--ALLOWING, OF COURSE, FOR ANY ADDITIONAL INFLATIONARY PRICE INCREASES WHICH PROBABLY WILL OCCUR BECAUSE OF UNEXPECTEDLY LONG PERIOD DURING WHICH TEXCO PC APPLICATION HAS BEEN BOGGED INSIDE EXIM. DUPENS EXPLAINED DIFFERENCE BETWEEN THEIR FIGURES AND THOSE OF IBRD AS FOLLOWS: IBRD TEAM LOOKED AT TEXCO FIGURES AND BELIEVED THAT THEY SHOULD BE REVISED UPWARDS BY 50 PERCENT OR MORE TO ALLOW FOR INFLATIONARY PRICE INCREASE OF MACHINERY DURING PERIOD BEFORE DELIVERY MWANZA. TEXCO ESTIMATES WERE PREPARED BY MANAGEMENT CONSULTANTS, SAIGOL BROTHERS, WHO STATE THEY HAVE ALREADY ALLOWED FOR PRICE INCREASES WHEN PREPARING THEIR FIGURES. FURTHERMORE, AMATEX (INDEPENDENTLY OF SAIGOL BROTHERS AND IN RESPONSE TO QUERY FROM ITALIAN COMPANY WHICH HAS MANAGEMENT CONTRACT TO OPERATE MWANZA MILL) PREPARED ESTIMATE ON PROJECT WHICH IS IN SAME RANGE AS ESTIMATE OF SAIGOL. WHEN AMATEX PRESIDENT BALLARD WAS HERE IN JULY HE EVEN SUGGESTED THAT INDUSTRY COULD SHAVE SOMETHING OFF PRICE IT QUOTED. HENCE, CONSULTATION WITH BALLARD SHOULD RELIEVE CONCERN OVER MACHINERY COST ISSUE. THUS, IN EMBASSY VIEW, IBRD HAS OVER ESTIMATED INFLATIONARY PRICE INCREASES FOR MACHINERY CONTENT OF MWANZA EXPANSION PROGRAM. FYI -- BELIEVE WOULD BE HELPFUL IF EXIM WOULD BRING QUESTIONS OF THIS NATURE DIRECTLY TO OUR ATTENTION IN ORDER TO GET FULL PICTURE BEFORE DISCUSSING WITH US PARTICIPATING BANK, THEREBY COOLING ITS ENTHUSIASM FOR PROJECT. END FYI.

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2. WE DO NOT UNDERSTAND WHY EXIM IS APPARENTLY SURPRISED THAT TEXCO IS SEEKING IBRD FINANCING. THIS POSSIBILITY MENTIONED LAST NOVEMBER IN REF (B) AND IT WAS SPOTLIGHTED IN FIRST SENTENCE OF REF (C). WE HAD THOUGHT EXIM WOULD HAVE USED OCCASION OF VISIT OF TEXCO MANAGING DIRECTOR (DISCUSSED IN REF (C)) TO GO OVER THIS AND ANY OTHER MATTERS APPROPRIATE TO LOAN. WE ALSO SURPRISED THAT EXIM WOULD THINK POTENTIAL BUYER WOULD NOT LOOK FOR

ALL ALTERNATIVE MEANS OF FINANCING ITS PROJECTS.

3. WE CONTINUE TO BE PERPLEXED AND DISHEARTENED AT THE LEISURELY PACE AT WHICH EXIM HAS CONSIDERED THIS LOAN APPLICATION. IT IS OUR UNDERSTANDING, FROM READING EXIM BANK LITERATURE AND EXIM BANK ACT OF 1945, THAT ITS PURPOSE IS TO AID US GOVERNMENT IN PROMOTING US EXPORTS. WE HAVE NO EVIDENCE THAT EXIM BANK HAS, FROM BEGINNING, APPROACHED THIS PROPOSAL WITH IDEA OF BEING RESPONSIVE AND NAILING DOWN TRADE OPPORTUNITY WHICH SEVERAL OTHER COUNTRIES FIND WORTH THEIR TIME TO PURSUE.

4. OUR TACTICS IN GOING AFTER THIS MAJOR PROJECT HAS BEEN TO MOVE FASTER THAN THE COMPETITION (SEE REFS (D) TO (J) AND SAIGOL BROS/LUCIUS MEMCON OF MAY 17, 1974). TEXCO HAS BEEN DELIGHTED AND UNABASHEDLY PLEASED WITH OUR PERFORMANCE UP UNTIL EXIM WAS BROUGHT INTO PICTURE. DESPITE REMINDERS TO EXIM BY TELEGRAM AND BY AF/E

WE HAVE BEEN UNABLE TO ENCOURAGE TEXCO THAT IT WILL EVER GET DECISION FROM EXIM--FAVORABLE OR UNFAVORABLE. WE ARE WEARY OF ALIBIING FOR EXIM, USING BANK'S CHARTER DIFFICULTIES WITH CONGRESS AS SMOKE SCREEN FOR BANK'S FAILURE TO FOCUS ON PROJECT DURING ENTIRE SUMMER. THIS, WE BELIEVE, IS GROSSLY UNFAIR TO TEXCO MANAGERS WHO ESTIMATE THEIR FOREIGN COMPONENT COSTS HAVE RISEN AT LEAST 4 PERCENT (ASSUMING A MINIMUM ANNUAL INFLATIONARY RATE OF 12 PERCENT) SINCE EXIM TOOK MATTER UNDER REVIEW.

5. WHAT IS THERE TO REVIEW? THE PROJECT APPEARS TO US AND EXIM LOAN OFFICER AULD TO BE SOUND ONE. IBRD PEOPLE ARE SO ENTHUSIASTIC, SO WE UNDERSTAND, THAT THEY ARE PUSHING TOWARD FAVORABLE DECISION IN NOVEMBER, HAVING STARTED COLD ON PROJECT AFTER EXIM. THE PROBLEM IS TANZANIA'S BALANCE OF PAYMENTS CRISIS--ONE WHICH WILL PROBABLY LAST FOR TWO, PERHAPS THREE, YEARS--BUT ONE EXPECTED TO END WELL IN ADVANCE OF FIRST REPAYMENT OF ANY EXIM BORROWING. LIMITED OFFICIAL USE

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WE RECOGNIZE THERE IS A RISK--BUT WE THOUGHT THAT IS WHAT EXIM IS IN BUSINESS TO TAKE. WE FIND IT STRANGE THAT EXIM IS APPARENTLY BLAKING OVER \$30 MILLION LOAN WHEN IBRD IS ENCOURAGING TANGOV TO LOOK TO IT TO FINANCE TEXTILE MILL PROJECTS. WE ALSO NOTE CHASE-MANHATTAN NOW ACTIVELY NEGOTIATING \$42 MILLION SHORT-TERM LOAN AND US BANKS ARE WILLING TO TAKE RISK IN FINANCING TEXTILE MILL PROJECTS ON BASIS OF LIBO-CONSTRUCTED RATE. PERHAPS EXIM TIMIDITY CAN BE TRACED TO NEVER HAVING HAD EXPOSURE HERE. WE ARE NOT SURPRISED GIVEN OUR HISTORY OF TIMIDITY IN LOOKING AT TANZANIA AS MARKET FOR US EXPORTS AND ITS STRONGER TRADING TIES WITH EUROPE AND FAR EAST. ON THIS MAJOR-PROJECT OPPORTUNITY, HOWEVER, WE HAD ADVANTAGE FROM START OF HAVING TWO TANZANIANS, CHARGED WITH FINAL SELECTION OF OVERSEAS SUPPLIERS, WHO ARE US-TRAINED AND WERE QUICKLY CONVINCED OF THE SUPERIORITY OF US TEXTILE MACHINERY. THIS WAS OPENING WEDGE FOR MORE EXPORT SALES TO TANZANIA, BUT IT

IS OBVIOUS TO US THAT EXIM'S SLUGGISHNESS IN APPROVING APPLICATION IS RAPIDLY JADING EXPECTATIONS HERE AND WILL THWART ANY MAJOR-PROJECT TRADE PROMOTION WORK FOR CONSIDERABLE TIME. TANZANIANS WILL LONG REMEMBER THAT EXIM KEPT TANZANIA DANGLING ON THE LINE WITHOUT A HINT OR WORD IN RESPECT THEIR APPLICATION.

6. CONSEQUENTLY, WE THINK IT IS HIGH TIME PC LOAN APPLICATION BE SORTED OUT ONCE AND FOR ALL--AND QUICKLY. THEREFORE, WE RECOMMEND THAT PERIOD IN FIRST WEEK IN OCTOBER BE SET ASIDE TO INVITE ALL PARTIES IN MATTER--(A) TEXCO'S FINANCIAL ADVISORS; (B) AMATEX; (C) US PARTICIPATING BANK; (D) EXIM REPS; AND (E) STATE AND/OR COMMERCE REPS TO CLEAR AIR AND OBTAIN LOAN AGREEMENT AND SALVAGE WHAT WE CAN IN WHAT HAS, THUS FAR, BEEN A BLOTCHED EFFORT TO FINANCE A MAJOR PROJECT.
CARTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXTILE INDUSTRY, DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974DARES03258
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740268-0266
From: DAR ES SALAAM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740920/aaaaaqmj.tel
Line Count: 184
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) STATE 206610
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 30 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 AUG 2002 by WorrelSW>; APPROVED <04 MAR 2003 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXIM LOAN TO TANZANIAN TEXTILE INDUSTRY
TAGS: BEXP, BTIO, EFIN, TZ, XMB, TEXCO
To: STATE COM
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005